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SUBJECT: JAPANESE MORNING PRESS HIGHLIGHTS 06/01/06

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3) Prime Minister's Official Residence (Kantei)

Prime Minister's schedule, May 31, 2006

NIHON KEIZAI (Page 2) (Full)
June 1, 2006

09:19

Met at Deputy Chief Cabinet Secretary Suzuki at Kantei.

10:01

Attended a Upper House plenary session.

11:21

Met Okinawa Governor Inamine and others at Kantei.

12:53

Attended the funeral service for former Agriculture Minister

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Yoshiyuki Kamei at the Aoyama Funeral Home.

14:22

Arrived at Kantei.

15:17

Issued a credential to the potential candidate for the Shiga gubernatorial election at LDP headquarters, with Secretary General Takebe, Acting Deputy Director General Aizawa, Election Bureau Director General Endo. Later, met with Takebe, joined by Policy Research Council Chairman Nakagawa.

15:59

Arrived at Kantei.

17:00

Met Public Security Intelligence Agency Director General Oizumi. Attended a meeting of the Council on Economic and Fiscal Policy

19:31

Returned to his official residence.

20:25

Talked on the phone with US President Bush, with Foreign Ministry Foreign Affairs North American Affairs Bureau Director General Kawai Present.

4) US urges "Japan to consider imposing financial sanctions" on Iran if nuclear talks failed

NIHON KEIZAI (Page 1) (Full)
June 1, 2006

Hiroshi Maruya, Washington

The US government has urged Japan to consider financial sanctions on Iran in preparation for a failure in diplomatic efforts to resolve the Iranian nuclear issue, sources revealed. The US made this request, apparently bearing in mind such measures as freezing financial transactions suspected of having links to nuclear development and terrorist activities, as well as suspending the start of new financial transactions with firms in Iran, since Japan is able take such measures under its Foreign Exchange Act. Japan will likely be forced to make a difficult decision in the months ahead, given its close ties with Iran in the economic area through crude oil imports from that country and the Azadegan oil field development project.

Washington has pursued diplomatic negotiations at the United Nations Security Council (UNSC) as well as six-nation talks of the five UNSC permanent members plus Germany. The US has urged Iran to freeze its uranium enrichment program in a verifiable manner and respond to negotiations. On the other hand, assuming these efforts may fail, the US has begun looking for ways for a

"coalition of the willing" composed of Japan and European nations would work together to take action (against Iran) in the financial area.

According to sources concerned, Washington has asked Tokyo to apply the Foreign Exchange Law, which was amended in 2004 to put stronger pressure on North Korea. The law stipulates that Japan can independently put restrictions on remittances if "Japan needs

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to do so for the maintenance of its peace and safety." But Japan has yet to use this provision.

As of 2005, Japan imported 13.8% of its total crude oil from Iran. Japan's imports from Iran, now at 13 billion dollars, has made it Iran's largest trade partner.

5) Koizumi, Bush hold talks over telephone

SANKEI (Page 5) (Full)
June 1, 2006

Prime Minister Junichiro Koizumi held talks with US President Bush over the telephone yesterday evening. Ahead of their meeting scheduled for June 29, the two leaders confirmed that Japan and the United States would deepen cooperation further. The telephone talks were held for about 10 minutes at the US government's proposal.

"I'm looking forward to exchanging frank views in our meeting over various challenges facing the international community," Bush told Koizumi. "I'd like to reaffirm further cooperation between our two countries from the perspective of our alliance in the world," Koizumi responded. Koizumi will make an official visit to the United States from June 28 and will meet with Bush at the White House on June 29.

6) Government supports US proposal for talks with Iran in hope of resumption of direct dialogue

ASAHI (Page 2) (Full)
June 1, 2006

The US government has announced its readiness to join talks along with Britain, France, and Germany once Iran abandons its ambition to enrich uranium. The Japanese government is pinning hopes on the US proposal that it will prompt the United States and Iran to engage in direct dialogue after a suspension of over 20 years. In the early hours of June 1, Foreign Minister Taro Aso released a statement expressing his strong hopes for Iran to respond to the US proposal properly.

Prime Minister Junichiro Koizumi and US President George W. Bush in their telephone talks last night touched on the Iranian issue. Foreign Minister Aso also conveyed Tokyo's intention to support the US proposal in his subsequent telephone talks with US Secretary of State Condoleezza Rice.

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The US government is considering such options as talks with Iran along with Britain, France, and Germany, a UN Security Council resolution, and sanctions by a "coalition of the willing" apart from the UN scheme. The US has also asked Japan to consider financial sanctions. The government has already begun studying details of sanctions.

Japan imports about 15% of its crude oil from Iran. Japan has also been developing the Azadegan oilfield, which has an estimate 26 billion barrels of oil reserves. In the hope of a settlement through dialogue, the government has been watching US moves closely, since joining a coalition of the willing would affect its securing of oil resources.

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7) President Bush asks Prime Minister Koizumi for Japan's cooperation on Iran's nuclear issue

NIHON KEIZAI (Page 1) (Full)
June 1, 2006

Prime Minister Junichiro Koizumi late yesterday talked on the phone to US President Bush at the Prime Minister's Official Residence. Bush renewed the call on Japan to cooperate to resolve the Iran nuclear issue. Ahead of the upcoming foreign ministerial meeting of six nations - the five permanent members of the United Nations Security Council plus Germany - set for today in Vienna, the president reportedly gave an account of America's position to Japan. The conversation took place at the US' request and lasted for some 10 minutes.

Koizumi, referring to the upcoming Japan-US summit slated for June 29, told Bush: "I'd like to reaffirm closer cooperation between the two countries, from the perspective of the Japan-US alliance in the world." After this telephone conversation, Foreign Minister Taro Aso also held a telephone discussion with Secretary of State Rice and expressed his endorsement of the US

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approach to the Iran nuclear issue.

8) GSDF convoy targeted in bomb attack

YOMIURI (Page 2) (Abridged)
June 1, 2006

CAIRO-A convoy of Ground Self-Defense Force and Australian force vehicles was involved in a bomb blast when they were running along a road in the southern Iraqi city of Samawah on May 31 around 9:45 a.m. (2:45 p.m., Japan time). According to local security sources, there were no injuries among the GSDF and Australian troops. However, one of the Australian vehicles in the convoy was damaged, and a local resident was injured in the blast. Armed insurgents possibly targeted GSDF and Australian troops. It is unusual that the Samawah-based detachment of GSDF troops is targeted in an attack outside its Samawah camp. GSDF members last came under an off-camp attack in June 2005.

According to the security sources, the nine-vehicle convoy was made up of six GSDF vehicles and three escorting Australian vehicles. The blast occurred right after the frontrunning vehicle passed there. A wired detonator was discovered on a path 25 meters away.

9) Nukaga orders SDF to quake-hit Java

TOKYO SHIMBUN (Page 2) (Full)
June 1, 2006

Defense Agency Director-General Fukushima Nukaga issued orders last night to the Ground and Air Self-Defense Forces to dispatch troops to engage in relief activities in the central part of Java, Indonesia, that has been devastated by the recent earthquake in accordance with the Japan Disaster Relief Team Law. The two forces will send some 40 troops, mostly doctors and nurses from the GSDF's Middle Army 10th Division. They will form a 50-member medical relief team with part of the advance team that is already in Java. The team will conduct medical support activities in Jogjakarta in compliance with a request from the

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Indonesian government. The members are scheduled to depart from the Komaki base aboard the ASDF's two C-130 transport planes.

10) Japan, US heighten alert to North Korean missile launch

SANKEI (Top play) (Abridged)
June 1, 2006

With North Korea getting ready to launch Taepodong-2 long-range ballistic missiles, the Japanese and US governments have gone on heightened alert, government sources revealed yesterday. Japan and the United States have entered the final phase of preparedness, according to the sources. US Forces Japan (USFJ) seems to be flying RC-135S Cobra Ball electronic surveillance aircraft in order to detect a possible missile launch. The Defense Agency has also increased alertness with Aegis-equipped ships and electronic intelligence aircraft on stage to gather intelligence in the Ground, Maritime, and Air Self-Defense Forces' first joint operation.

The Japanese and US governments have now raised their warning levels because of the Taepodong 2 launch possibility, a government source noted. There is no knowing if North Korea has already fueled the missiles. However, another government source said Japan and the United States were now in the final phase of preparedness. Meanwhile, the six-party talks over North Korea's nuclear programs remain deadlocked. North Korea therefore would seem to be threatening Japan and the United States in order to gain concessions and may not actually launch the missiles, according to sources.

In early May, there were signs that North Korea was readying missiles for launching. Radio communications were exchanged more frequently than usual at a missile test site in North Korea's northeastern district. Japan and the United States also have noticed recent changes in radio communications.

The Defense Agency has dispatched the Chokai, an MSDF Aegis vessel based at Sasebo. The ASDF is also staging YS-11E electronic monitoring aircraft to collect intelligence. USFJ has been deploying the Cobra Ball to Kadena airbase in Okinawa since late this May. The US Air Force is already flying the Cobra Ball on surveillance missions, according to the sources.

11) Defense Agency formulates plan on new organization to replace DFAA

YOMIURI (Page 4) (Full)
June 1, 2006

The Defense Agency has decided to dismantle the Defense Facilities Administration Agency (DFAA). The Defense Agency yesterday compiled a draft plan featuring the establishment of a new organization (tentatively called the Local Planning Bureau) as an internal bureau after abolishing the DFAA. It intends to incorporate the plan in its budgetary request guidelines for fiscal 2007.

12) Okinawa Gov. Inamine gives Prime Minister Koizumi traditional Okinawan shirt but does not mention USFJ realignment

YOMIURI (Page 4) (Full)

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June 1, 2006

Okinawa Gov. Kenichi Inamine met yesterday with Prime Minister Junichiro Koizumi. He then held talks Yuriko Koike, minister in charge of Okinawa issues. Inamine has expressed opposition to the basic policy on the realignment of US forces in Japan, which the government approved in a cabinet meeting on May 30. He, however, did not mention the realignment issue in his meeting with Koizumi, as the meeting had been arranged for the purpose of Inamine presenting Koizumi with a traditional Okinawan shirt known as yukari. Koizumi, wearing the shirt, seemed to be happy, but Inamine kept a firm expression. After the meeting, Inamine told reporters, "(I did not refer to the US military realignment) because the occasion was not appropriate."

In his meeting with Koike, Inamine expressed his appreciation for her making specific requests of relevant cabinet ministers to listen to Okinawa's views, saying, "I thank for your special consideration." Koike as well showed consideration to Okinawa by revealing regional promotion measures.

13) Important bills shelved with no possibility of extension of current Diet session

MAINICHI (Page 5) (Excerpts)
June 1, 2006

A bill revising the Basic Education Law will be carried over to the next Diet session since the government and the ruling parties have decided not to extend the current session. Since Minshuto (Democratic Party of Japan) President Ichiro Ozawa has taken the stance of facing down the ruling camp, bogging down current deliberations, Prime Minister Junichiro Koizumi brushed off calls for an extension of the session. As a result, it is now certain that many important bills will be put on the backburner.

Koizumi yesterday told LDP Secretary General Tsutomu Takebe and Policy Research Council Chairman Hidenao Nakagawa that he would not extend the current Diet session. He instructed them to consider steps to carry over bills to an extraordinary Diet session. Asked about the possibility of a minor extension, Koizumi told reporters, "I have no such intention now."

The government and ruling coalition aim to pass by June 6 a set of bills to reform healthcare services that focus on an increase in medical payments by the elderly, A bill amending the Public Offices Election Law designed to "cut 4 seats and increase 4 seats" of the fixed number of the House of Councillors seats, will be approved at today's House of Representatives plenary session.

Since priority is being given to passage of the medical reform bills, deliberations will not be carried out until then on such contentious legislation as a bill to revise the organized crime law to make "conspiracy" a crime, and a referendum bill for amending the Constitution. If the government and ruling camp defiantly conduct deliberations on other bills, Minshuto might boycott the sessions. Therefore passage of other bills is impossible in terms of the Diet schedule.

14) 32 lawmakers attend first meeting of group of like-minded members led by Yasuo Fukuda

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MAINICHI (Page 5) (Full)
June 1, 2006

A group of Liberal Democratic Party (LDP) like-minded lawmakers, who were first elected to the Diet at the age of 50 or older, held its first general meeting yesterday since former Chief Cabinet Secretary Yasuo Fukuda assumed its chairmanship. The members call the group "Association of Kuronin (persons who have gone through a lot). Fukuda in a speech sought to check a generational change argument in the LDP, saying, "Of course, young people are important, but seniors like us can do good, too."

Because support rates for Fukuda in opinion polls have risen rapidly, the membership of the group increased by 20 in May to 53 lawmakers from both Diet houses. A total of 32 members from the factions of Mori, Tsushima, Niwa-Koga, Yamasaki, Ibuki, and Tanigaki attended the meeting yesterday. Fukuda also stated in his speech: "We should hand over to young people matters that should be turned over to them." Many group members assume that if calls for Fukuda to become the next LDP president become stronger, the group may become his main support group. Some members, however, will likely watch quietly from afar the moves of Chief Cabinet Secretary Shinzo Abe.

15) State Minister Yosano advocates separate enshrinement of Class-A war criminals: "I expect Yasukuni Shrine to come up with a decision to realize it"

MAINICHI (Page 2) (Full)
June 1, 2006

By Arisa Ota

State Minister in Charge of Economic and Fiscal Policy Kaoru Yosano was interviewed by the Mainichi Shimbun. When he was asked about the enshrinement of Class-A war criminals at Yasukuni Shrine, Yosano stated: "I think it is Yasukuni Shrine that can return itself to the former state when the imperial family, politicians, and bereaved relatives were visiting the shrine without hesitation to console the souls of the war dead. It is also Yasukuni Shrine that will decide how to bring itself back to the former state, including separate enshrinement of Class-A war criminals." Yosano thus expressed his hope that the shrine will move to bring about separate enshrinement. Yosano is the first in the Koizumi administration to clearly advocate the need for separate enshrinement.

Yosano cited two assertions made by Yasukuni Shrine: 1) the shrine is free from state interference as a religious corporation; and 2) the shrine is the only memorial facility for the state. Yosano stated, "The shrine needs to think of various factors if it wants these two points to be accepted." "It is an important thing to respect the war dead and console their souls. The government hosts the war memorial service at the Nihon Budokan Hall in Tokyo on every Aug. 15. The ceremony is participated in by the Emperor. The government does not think that anything more is needed," Yosano added.

Another cabinet member, Foreign Minister Taro Aso has stated: "I wonder if the problem is that one religious corporation has been

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assigned such an important role as enshrining the spirits of the war dead." Aso has thusly revealed the need for the government to consider ways for separate enshrinement of Class-A war criminals, envisioning the possibility of removing religious cooperation status from Yasukuni Shrine.

16) To put fiscal policy into the black, government, ruling parties mull hike in consumption tax in order to make up for 8 trillion yen revenue shortfall over medium to long term

MAINICHI (Top play) (First paragraph)
June 1, 2006

As part of fiscal reconstruction reforms over the medium to long term to bring together outlays and revenues, the government and ruling parties have started to consider the option of bringing about the basic fiscal balance into the black by fiscal 2011, which involves filling a resource gap amounting to 18 trillion yen. Although this revenue shortfall can be reduced in part by cutting expenditures, the scale of such cost-cutting measures would make up approximately 10 trillion yen. The plan is to cover the remaining 8 trillion yen in shortfalls by tax hikes and tax revenues that would increase due to rising economic growth. The target for achieving such a balance is fiscal 2011. If a simple calculation using only the consumption tax is done, the 8 trillion yen shortfall could be covered by raising that tax by about 3%.

17) Draft trade white paper for 2006 proposes making Japan an investment-oriented nation, boosting investment in Asia

NIHON KEIZAI (Page 5) (Full)
June 1, 2006

The draft trade white paper for 2006 proposes making Japan an investment-oriented nation by increasing its surplus in the trade balance, based on the prospect that its trade surplus is expected to shrink given the current population decrease. The paper reiterates the necessity for Japan to boost direct investment particularly in growing Asia.

The Ministry of Economy, Trade and Industry, which drafted the paper and released it yesterday, will submit it in a cabinet meeting late June. Japan's surplus in the income balance in

fiscal 2005 totaled about 12.6 trillion yen, outstripping the surplus in the trade balance (about 9.6 trillion yen) for the first time. The white paper, though, notes that the rate of Japan's earnings from its overseas assets is still at the upper range of 2%, lower than those of the US and Britain (the upper range of 3%).

Japanese firms have invested mainly in securities, on which the earning ratio remains low. The ratio of Japan's foreign direct investment (FDI) to its all assets overseas is 17%, lower than Britain's 17% and the United States' 33%. The white paper defines this result as one of the main reasons for Japan's low earnings rate.

In 2004, 38% of Japanese firms invested in the US, while 19.5% invested in Asian countries. The white paper suggests that Japanese firms should shift their investment destinations to Asia with high growth potential, in order to increase their earning

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rates. The paper emphasizes the importance of removing restrictions on trade and investment by promoting EPAs.

18) IT Strategy Headquarters suggests setting up committee to evaluate IT investment

NIHON KEIZAI (Page 2) (Full)
June 1, 2006

The government's IT Strategy Headquarters, headed by Prime Minister Junichiro Koizumi, unveiled its draft priority plans for 2006 yesterday. The draft proposes setting up an expert evaluation group composed of academics and engineers from the private sector to examine whether the government has invested in the information and technology (IT) sector in an effective manner. The government's investment in IT has been criticized as squandering budget allocations. In addressing the issues of the introduction of IT in medical institutions and e-governance, the draft suggests that committees should be established for the two issues to conduct even stricter assessments.

The Strategy Headquarters will instruct relevant government agencies to make improvements based on assessment results. The government will publicize the draft plan in a meeting today of the Strategy Headquarters and adopt it in July.

19) Japan to propose in APEC formulation of guidelines on investment rules

NIHON KEIZAI (Page 5) (Full)
June 1, 2006

Takenori Kawana, Ho Chinh

In a trade ministerial meeting of the Asia-Pacific Economic Cooperation (APEC) forum to start on June 1 in Ho Chinh, Economy, Trade and Industry Minister Toshihiro Nikai will propose setting guidelines on rules for bilateral investment. By introducing the principle of national treatment to offer equal conditions for foreign and domestic firms and requiring each member nation to abolish their nationality restrictions for executive posts, Japan aims to enable APEC member countries to conclude high-quality economic partnership agreements (EPA).

Japan's proposal is likely to be incorporated in the APEC chairman statement to be adopted on June 2. Japan aims to start the compilation process with other member countries at a working level and come up with a final plan by 2008. In promoting investment among APEC countries, barriers exist, such as restrictions on foreign capital and employment of foreigners. In addition, their laws, like tax systems, and regulations remain non-transparent. If model investment rules are prepared, it will become possible for Asian nations to smoothly conclude bilateral accords.

Specifically, each nation will be banned from seeking or

restricting foreign firms' exports and from mandating such firms to procure local materials. Foreign capital will also be allowed to remit money to their home countries without restrictions.

In the two-day APEC ministerial, discussion will be conducted on how to accelerate the multilateral trade negotiations (Doha

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Round) of the World Trade Organization (WTO) in the first-day unofficial meeting. In the plenary session on the second day, the participants are expected to discuss trade and investment liberalization, including the formulation of guidelines to eradicate pirate and imitation goods.

SCHIEFFER